

Message Text

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ACTION EA-14

INFO OCT-01 ADP-00 CIAE-00 DODE-00 PM-09 H-02 INR-10 L-03

NSAE-00 NSC-10 PA-03 RSC-01 PRS-01 SS-15 USIA-12

DPW-01 ACDA-19 GAC-01 IO-12 EUR-25 AID-20 CU-04 NIC-01

RSR-01 /165 W

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R 051115 Z APR 73

FM AMEMBASSY PHNOM PENH

TO SECSTATE WASHDC 0789

INFO AMEMBASSY BANGKOK

AMEMBASSY SAIGON

AMEMBASSY VIENTIANE

CINCPAC

C O N F I D E N T I A L PHNOM PENH 3215

E. O. 11652: GDS

TAGS: PINS, CB

SUBJECT: GKR DECLARES STATE OF SEIGE

1. SUMMARY: ON APRIL 4 PHNOM PENH RADIO BROADCAST AN ORDER OF THE PERMANENT COMMITTEE FOR NATIONAL DEFENSE SIGNED BY LON NOL ANNOUNCING NEW SECURITY MEASURES UNDER A " STATE OF SIEGE" (VOTED APRIL 4 BY PARLIAMENT) REPLACING THE PREVIOUS " STATE OF EMERGENCY". THE ORDER PROVIDES FOR TRIAL BY MILITARY TRIBUNAL OF MEMBERS OR " HIRELINGS" OF THE FORMER ROYAL FAMILY, STRIKE LEADERS, AND JOURNALISTS, AND THREATENS THE DEATH PENALTY FOR ACTS OF BANDITRY AND INDISCIPLINE BY FANK TROOPS. END SUMMARY

2. AMONG THE INCIDENTS CITED AS JUSTIFICATION OF THE ORDER ARE THE ATTACK BY " THUGS" UPON KHMER STUDENTS IN PARIS IN JANUARY, THE INCREASINGLY POLITICAL STRIKES IN PHNOM PENH AT A TIME WHEN CEASEFIRE NEGOTIATIONS WERE UNDERWAY, ATTACKS BY NORTH VIETNAMESE FORCES AND " COMMUNIST GUERRILLAS" IN THE VICINITY OF PHNOM PENH
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AND STRIKES " WHICH CAUSED INJURIES AND DEATH" AND THE BOMBING OF CHAMCAR MON PRESIDENTIAL PALACE BY THE " HUSBAND" OF THE DAUGHTER OF SIHANOUK. THESE INCIDENTS, THE ORDER STATES, LED TO THE DECLARATION OF A STATE OF EMERGENCY APPROVED BY THE PARLIAMENT.

3. UNDER THE STATE OF EMERGENCY, THE ORDER D, HOWEVER, THAT HIS TRIP TO GREAT BRITAIN HAD NOT SOFTENED ENGLAND' S OPPOSITION. HE INSISTED THAT GOL WOULD NOT ACCEPT ANY SOLUTION SHORT OF LOCATING FUND IN LUXEMBOURG. HE FEARED THAT ACCEPTANCE OF BRITISH POSITION WOULD BE OPENING WEDGE IN ATTEMPT TO REMOVE ALL COMMUNITY INSTITUTIONS FROM LUXEMBOURG.

2. BASIC LUXEMBOURG PLOY IS TO ISOLATE UK IN HER OPPOSITION. LUXEMBOURG' S ORIGINAL FIVE PARTNERS, PARTICULARLY FRANCE AND GERMANY, ARE TO ACCEPT INTERPRETATION THAT 1965 COMPROMISE COMMITTED MEMBER STATES TO LOCATE MONETARY FUND. HOWEVER, LATTER TWO COUNTRIES DO NOT SEEM WILLING TO TAKE POSITION UNEQUIVOCALLY SUPPORTING LUXEMBOURG.

3. DURING MARCH 29 MEETING WITH THORN, FRG FOREIGN MINISTER SCHEEL LINKED FRG SUPPORT TO REFORM OF LUXEMBOURG FINANCIAL SYSTEM. FRG AUTHORITIES BELIEVE GERMANS USE LUXEMBOURG TO CIRCUMVENT GERMAN TAXES AND FOREIGN EXCHANGE RESTRICTIONS. LUXEMBOURG' S BANK SECRECY MAKES IT IMPOSSIBLE TO TRACE FUNDS. THORN MAINTAINED THAT LUXEMBOURG WAS INTRODUCING NEW REGULATIONS TO PREVENT FRAUD. LUXEMBOURG WAS ALSO WILLING TO DO AWAY WITH SPECIAL FINANCIAL SYSTEM BUT ONLY IN CONTEXT OF OVERALL EC FINANCIAL HARMONIZATION. BY UNILATERALLY CHANGING STATUS, LUXEMBOURG WOULD SIMPLY LOSE BUSINESS TO OTHER FINANCIAL CENTERS OUTSIDE THE COMMUNITY. THE FRG WOULD PROBABLY BE SLIGHTLY WORSE OFF AS THE SAME ACTIVITIES WOULD BE CARRIED OUT BUT OUTSIDE OF COMMUNITY JURISDICTION. PRESTIGE BENEFITS FROM HOSTING FUND WOULD NOT OFFSET LOSS IN FINANCIAL LIMITED OFFICIAL USE

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ACTIVITIES IF GOL ACCEDED TO FRG REQUEST. IN ANY CASE SCHEEL IS REPORTEDLY NOT ATTENDING MEETING.

4. FRENCH ARE BEING NONCOMMITTAL. THEY WILL NOT HAVE A FOREIGN MINISTER IN ATTENDANCE AT COUNCIL MEETING. THORN POINTS OUT THAT FRENCH HAVE ALWAYS FELT THAT IT IS

NECESSARY THAT ENGAGEMENTS OF 1965 BE RESPECTED, BUT ONE CANNOT BE SURE OF ATTITUDE OF NEW GOVERNMENT. LACK OF STRONG FRENCH SUPPORT MAY BE TRACED TO RESENTMENT OVER FAILURE OF GOL TO SUPPORT FRENCH BID TO LOCATE POLITICAL SECRETARIAT IN PARIS. ALSO FRENCH SEEM TO SHARE BRITISH CONCERN OVER ABILITY OF FUND TO FUNCTION EFFICIENTLY IN LUXEMBOURG.

5. MIDDLE LEVEL GOL MFA OFFICIAL, MICHEL GRAFFE, ADMITS THAT GOL LEGAL CASE IS NOT WATERTIGHT. ARTICLE 10 OF 1965 COMPROMISE HAS LOOPHOLES. ARTICLE 10 STATES ONLY THAT MEMBER STATES ARE DISPOSED TO LOCATE IN LUXEMBOURG OTHER INSTITUTIONS, PARTICULARLY THOSE IN THE FINANCIAL SECTOR, IF THEIR GOOD FUNCTIONING IS ASSURED. "DISPOSED TO LOCATE" IS NOT A COMMITMENT TO LOCATE. THE 1965 ACCORD DOES NOT STATE "ALL FINANCIAL INSTITUTIONS" NOR DOES IT SPECIFICALLY REFER TO THE TYPE OF FUND BEING ESTABLISHED. FINALLY, THE MEMBER STATES ARE NOT ON RECORD AS AGREEING THAT A MONETARY FUND COULD FUNCTION EFFICIENTLY IN LUXEMBOURG.

6. GOL OFFICIALS MAINTAIN THE VERBATIM RECORD OF 1965 MEETING DOES BACK UP LUXEMBOURG CLAIM. BELGIAN FOREIGN MINISTER SPAAK, IN SUMMING UP MEETING WAS NOT CHALLENGED BY ANY OF THE PARTICIPANTS WHEN HE STATED THAT ALL PRESENT AGREED THAT IF LUXEMBOURG DEVELOPED ITS FACILITIES IT WOULD BE THE FINANCIAL SEAT OF THE COMMUNITY.

7. LUXEMBOURG IS SUPPORTED BY OTHER FIVE SMALLER MEMBERS OF COMMUNITY. THEIR SUPPORT IS BASED ON FEAR THAT A DEFEAT FOR LUXEMBOURG ON THIS ISSUE BY A BIG POWER WOULD NOT AUGUR WELL FOR THE FUTURE POWER OF SMALL STATES IN COMMUNITY. GALANTO

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*** Current Handling Restrictions *** n/a

*** Current Classification *** CONFIDENTIAL

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 05 APR 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: hilburpw
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973PHNOM03215
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: RR
Errors: n/a
Film Number: n/a
From: PHNOM PENH
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19730434/aaaahrcq.tel
Line Count: 152
Locator: TEXT ON-LINE
Office: ACTION EA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: hilburpw
Review Comment: n/a
Review Content Flags: ANOMALY
Review Date: 20 NOV 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <20-Nov-2001 by shawdg>; APPROVED <23-Nov-2001 by hilburpw>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: <DBA CORRECTED> gwr 971201
Subject: GKR DECLARES STATE OF SEIGE
TAGS: PINS, CB
To: BANGKOK
CINCPAC
EA
SAIGON
SECSTATE WASHDC
VIENTIANE
Type: TE

Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005